

## Limits of External Dependence for Development in Africa

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**Abstract.** Most African Countries and their leaders have been facing the problem of development of their various states. This situation has led many third world countries, particularly African countries to source for foreign assistance – financially and otherwise to solve their development problems since efforts made internally have not helped matters. Before the independence of most African countries, external aid was insignificant. Thus, one of the objectives of this paper is to examine the contributions and limits of external aid in Africa’s development efforts. The paper also assessed the impact of external dependence in Africa’s development. The paper adopts the historical description method of analysis. The sources of data include text, journal, internet, library research and works of other scholars related to the study. The study used the dependency theory as the framework for analysis. Findings show that African countries had depended on external sources, particularly from the developed countries for their developmental needs from the early period of their independence and the conditions given by the developed countries had brought about some limitations for Africa’s development. The paper, therefore, recommends that African countries must device an alternative sustainable development strategy that are less anchored on foreign sources for implementation, embark on serious regional economic integration and diversify their economies.

**Keywords:** Limit, External, Foreign aid, Dependence, sources, Development, Nigeria, Africa.

### 1. Introduction

Despite the post-independence enthusiasm of their governments, statemen, policy makers and peoples of

African countries, are still faced with the dual difficulty of achieving development and to improve the standards of living of their citizens. Most of their approaches to development are hampered by limited and inadequate financial resources, lack of industrialization and technical know-how. Thus, African governments have come to see dependence on external sources (foreign aids) as a deliberate strategy to come out of this vicious circle (Adedayo, 1999). At the 1985 twenty first OAU summit it became obvious, as African heads of state declared, most National Development plans and yearly budgets have tended to perpetuate arid even accentuate economic dependency through over reliance on foreign financial, technical and human resources

External Aid prior to independence was insignificant in most African countries. Also, the decade of independence (1960s-1970s) could be described as “boom years” because many independent African countries experienced growth rates that were internally generated mostly through foreign exchange earnings from export commodities which were supplemented by official development assistance in addition to private capital inflows from the developed countries. This enabled African leaders in making some progress in providing essential services and expanding the frontiers of infrastructural facilities in the areas of education, health, roads, water supply and power generation etc. On the contrary, growth and development have been on the decline, particularly since the 1970s for many independent African countries. This was mainly due to a fall in the price of primary products at the international market within this period. For instance, the price of cocoa, a major agricultural export product in the West African sub-region fell from a peak of US\$ 3,790 per ton in 1977 to US\$ 1,438 per ton in 1994 while that of

crude oil, fell from US\$ 35. 8 per barrel in 1980 to US\$ 16.2 in 1994 (CBN in Adedayo 1999). With this turn of events, dependence on external sources in the form of loans, grants, technical assistance etc. appeared to have become necessary as a means of boosting resources for socio-economic progress. Thus, foreign aid became an important feature in the development plan and annual budget of most African countries. By the early 1970s, driven by the urge to industrialize, African countries borrowed large sums of money, at a time when the global financial market was glutted with petrodollars. Within this period (1970), Africa's total foreign debt stood at US\$ 13.20 billion. But towards the end of 1980 its foreign debt skyrocketed to US\$ 105.4 billion with an annual rate of increase of twenty two percent. At the end of 1989, African foreign debt had more than doubled in a decade to US\$ 250 billion (World Bank cited in Nna & Igwe, 2011; Steven & Michael, 2006). Currently, most African countries are still neck deep into external dependence (foreign aid) in their pursuit for development. However, it has been argued in some quarters that external aid instead of being a solution to Africa's developmental problems has turned to be the sources of the problems. The question therefore is, at which point African countries should stop their dependence on external sources for their development? Put differently, what are the limits of external reliance for development in Africa? This is the question this paper will strive to answer. However, in doing that we will clarify concepts such as foreign aid and its types, examine the relationship between foreign aids and development and the argument for and against foreign aid. Having done these, we will then try and locate the limits of external aid reliance (foreign aids) for development in Africa.

## 2. Conceptual Clarification

Attempts to showcase foreign aid for development in a discrete and intelligible manner have generated a number of theoretical issues for analysis. To the Realists, for instance, aid is a policy tool that originated in the Cold War era to influence the political judgements of the recipient countries in a bipolar struggle (Liska, 1960; Morgenthau, 1962; Hook, 1995). According to Baldwin (1966), cited in Eneka and Igwe (2012), one of the Liberal Institutionalists, foreign aid is a set of programmatic measures designed to enhance the socio-economic and political development of recipient countries. The World System Theorists see aids as a means of constraining the development path of recipient countries, promoting the unequal accumulation of capital in the world. In summary, all of these theories

are of the belief that foreign aid consists of material goods or services that are owned or controlled by donors, the allocation of which may vary according to their purposes and interests.

It will not be out of place to make some necessary conceptual clarification here to enable us to understand some terms as used in this paper.

### 2.1 Foreign Aids

Foreign aid has, most conventionally, been defined as "all financial transactions that take place between donor and recipient nations" (Adedayo; 1999: 283). This definition has the problem of assuming that aid, for instance includes all loans with high interest rates or commercial interest rates. There has been a general consensus that loan with high interest rate and obnoxious conditions are for all theoretical purposes, outside the purview of aid or assistance (Saliu, 1999). Foreign aid is thus conceptually categorized into different components based on the extent to which it is composed, not only of commercial transaction but also of grants and loans. This is to say that aid constitutes grants, loans and technical assistance derived from governments either directly, bilaterally or multilaterally through international agencies known as Official Development Assistance (ODA) as well as grants from voluntary agencies (Adedayo, op.cit).

A grant is regarded as outright gift or pure aid since it entails neither interest nor obligation to pay back loans, on the other hand considered as aid if they are "soft" in terms of the rate of interest they attract and the period of payment.

Technical assistance is another component of foreign aid and it refers to training facilities, equipment and personnel from a donor country meant for local capacity- building in the recipient country through the training of skilled manpower, institutional building, provision of professional support and advice on policy formulation, reform and implementation (Olanrewaju in Adedayo, 1999)

### 2.2 Development

This is one concept that has a multiplicity of definitions and meanings. Development has been interpreted in different ways by various people. In his own analysis, Rodney (1972) sees development both from the level of the individual and that of the society as a whole. At the level of the individual, development implies increased skill and capacity, greater freedom, creativity, self-discipline, responsibility and material well-being. On the level

of the Society, development cannot be seen purely as an economic affair, but rather as an overall social process which is dependent upon the outcome of man's efforts to deal with his natural environment. Smith and Todaro (2004) see development as the sustained elevation of an entire society and social system toward a "better" or more humane "life" conceding that what constitutes the good life varies with time, environment and society, even as it is a question as old as philosophy and human kind. The scholars identified and advanced three core values that should serve as a conceptual basis and practical guideline for understanding the inner making of development. These values are; life sustenance, self-esteem and freedom. For Ake (2001), development is the process by which people create and recreate themselves and their life circumstances to realize higher levels of civilization in accordance with their own choices and values. It is conceived as a multi-dimensional process involving major changes in social structure, popular attitudes and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty.

Further, development has been defined as a type of social change in which new ideas are introduced into a social system in order to produce higher per capita incomes and levels of living through more modern production methods and improved social organization (Rogers 1969 cited in Obi and Nwanegbo (2006).

### 3. Theoretical Framework

Theoretical framework as used in this paper means the examination of some theories proffered by scholars on the limits of external dependence for development in Africa to enable us to consider and select a particular theory on which to couch this study. Theoretical framework is "the main supporting parts of a building, vehicle or object or set of facts, ideas from which more complicated ideas are developed, on which decisions are made" (Biereenu-Nnabugwu 2006, p.86). The Modernization Theory and the Dependency will be briefly looked at in this paper. Some development scholars have come to equate development with Westernization, which implies that any country that is desirous of developing must struggle to be like the Western capitalist societies. These group of scholars are referred to as the **Modernization Theorists**.

#### 3.1 Modernization Theory

One major challenge facing the world in the contemporary period particularly since the end of the

Second World War is the issue of development and underdevelopment. Put differently, in line with Biereenu-Nnabugwu (2013), modernization theory represents a response or reaction to the gap between the rich and poor nations and the problems thereof.

According to Ake (2001) cited in Obi and Nwanegbo (2006:3), *in its most common form, modernization theory posits an original state of backwardness or underdevelopment characterized by among other things, a low rate of economic growth that is at least potentially amenable to alteration through the normal process of capital. This original state of backwardness is initially universal. According to the theory, the industrialized countries have managed to overcome it. All the other countries could conceivably overcome backwardness too if they adopted appropriate strategies.*

The Modernization theory is an attempt to provide explanations and solutions to observed problems of the inequality between the nations of the world. In a nutshell, modernization theory, essentially a product of Western social science scholarship, explains why the poor countries are poor and also says what they must do to develop or be like the West. The theory equates modernization with Westernization and argues that to modernize non-western societies must imitate the West. In other words, for non-Western societies to take a leap into modernity they must fall in line behind the West in both their socio-economic and political development. Notable theorists of modernization are W.W. Rostow's (1960), *The Stages of Economic Growth*, Lucian Pye's (1966) *Aspects of Political Development* among others. The modernization theory has not gone down well without criticisms from some scholars. One of the most remarkable criticisms against the theory is Ake's (1982) *Social Science as Imperialism: Theory of Political Development*. Tenas Szetes (1973) and Onigu Otite (ed. 1978) were other critics of the modernization theory. They criticized the theory for seeing the Third World as the embryonic proto-Europe.

#### 3.2 Dependency Theory

Fernando Henrique Cardoso, a Brazilian Sociologist first coined the concept and used the term to link those who are beneficiaries of development with those who make the decision. Dependency connotes, in this sense, crucial economic decisions that are made not by the countries that are being developed but by foreigners whose interests are being carefully safeguarded. For Dos Santos (in Biereenu-Nnabugwu (2013, p.179), dependence is "a conditioning situation in which the economics of one group of

countries are conditioned by the development and expansion of others". A conditioning situation determines the limits and possibilities of action and behaviour of people as Dos Santos further explained. The main tenet of the dependency theory is that the wealth and poverty of nations of the world result from the global process of exploitation. Dependency theorists strongly believe that Third World underdevelopment is a consequence of the exploitative contact between the developed West and these countries. That underdevelopment is not an original state as modernization theorists would want us to believe- lack of technical know- how, institutionalization, differentiation, etc. The crux of the matter is that the Third World countries have been subjected to exploitation of the international capitalist system and its special imperialist agents, both domestic and alien. The dependency theory as palatable as its argument, has a major weakness arising from the fact that its critiques see it more as a critical methodology than a full theory. The theory has stimulated profound debate on the real problems of the Third World.

From the foregoing, the dependency theory is suitable for this paper as it advocates dependence on foreign aid of any kind for African countries to develop.

#### **4. Argument For and Against External Reliance (Foreign Aid) as an Instrument for Development**

Scholars have not been able to agree on the exact relationship between foreign aid and development .While liberal scholars see the relationship as positive, radical and mostly Third World scholars see it as negative and antithetical. For liberals, foreign aid (in whatever form) engenders the process of economic growth and development in the recipient country by closing the gap between available and needed resources (Saliu, 1999). In the liberal tradition foreign aid is highly regarded as bridging the gaps in production, savings, foreign exchange, investment technology and consumption, all of which have been recognized as hindering developmental efforts in developing countries, especially in Africa. Liberals view borrowing, in particular, as allowing a country to invest and consume beyond the limit of current domestic production and gain financial capital accumulation through both the mobilization of domestic savings and tapping savings from economies that have surplus capital.

This liberal argument tends to hold more so when the volume of aid is much. Some scholars have argued

that increased volume of aid which is efficiently channeled to government with clear development agenda will most likely be used to improve the quality of the civil service, enhance policy and planning capacity and assist in establishing and developing strong central institutions (Brautigam and Knack, 2004).

Others like Devaranjan, Dollars, and Holmgren (2001) also posit that aid can release the binding constraints of low revenue for governments committed to development. Scholars from this persuasion supported their claims with empirical evidence from the East Asian region, where they particularly referenced South Korea and Taiwan, and in Sub-Saharan Africa, where they highlighted Botswana (Durberry, Gemmell and Greenaway, 1998).

Conversely, radical scholars and other antagonists of foreign aid have challenged the intellectual foundations of the pro-foreign aid argument The antagonist argue that foreign aid and especially borrowing is inimical to economic growth and development in the recipient country. This is especially so when conditions are not "soft". Resultantly, they argue that foreign aid results in distortions in the domestic politics and economy of recipients such as "debt crisis", poverty, wider technological gap and disequilibrium in the foreign sector.

Again, the Mises institute has pointed out that aid can be routed to multinational companies rather than the citizens of the country that it is supposed to help. Corruption in many African countries that leads to a portion of the aid money being siphoned off into private bank accounts. It could also be a method of corruption at home Aid money once in the hands of corrupt dictators and off the stringent accounting books of western nations can be kicked back, to corrupt domestic politicians in a number of ways. And seen as an apparent act of charity. It is also less politics to scrutinize such transaction (Nna, Taylor and Igwe, 2011).

According to Graham (1989), aid is not bad, however, because it is sometimes misused, corrupt or crass; rather, it is inherently bad, bad to the bone, and utterly beyond reform. As a welfare dole to buy the repulsive loyalty of wining idle and malevolent government, or as a hidden, inefficient and inadequately regulated subsidy for western business, it is possibly the most formidable obstacle to the productive endeavours of the poor. It is also a denial of their potential, and a patronizing insult to their

unique, unrecognized abilities. Graham went further to pontificate the fact when he added that foreign aid, no matter the form in which it comes does not help ordinary people “to help themselves” and it does not promote broadly based prosperity. Instead, it systematically empowers and enriches the very forces that most efficiently stifle the initiative and resourcefulness of peasants, nomads, slum-dwellers and villagers throughout the Third World.

This is considered so because the only language capitalism (which is the driving force or philosophy behind aid) understands is exploitation of surplus value, often with cruel effects (Saliu, 1999). This exploitation associated with foreign aid sometimes manifests in the conditionalities imposed by majority of aid regimes. These may include donor nations’ access to recipient national decision-making processes; direct transfer of resources from the recipient country to the donors’ (through repatriation); imposition of dysfunctional economic policies upon recipient and high interest rates, among others.

It is also argued that high level of aid might also hinder the efficiency and improvement of governance by weakening institutions rather than building them. In a related manner, it is also argued that high level of aid can create incentives that make it more difficult to overcome the obstructions to collective action required to build a more capable and responsive state and a more effective foreign aid system

Consequently, high level of aid may lead to aid “dependence”- which is the process by which regular and consistent provision of aid appears not to be making remarkable contribution to the achievement of self, sustaining development, or a mindset which make aid recipient lose their ability to think for themselves and thereby relinquish control.

Although each of these perspectives has its merits, this paper aligns itself with the latter perspective that sees foreign aid as counter-productive in developing economies. This position is informed by the realities of African political economies, which have, so far, been adversely effected by the dominant foreign aid regime of the economic West or global North.

##### **5. The Limits of External (Foreign Aid) Dependence or Reliance for Development in Africa**

Africa has depended on external sources for its developmental needs right from the early years of independence. The foundation of this reliance was

laid during the colonial period. Ominode, (1985) has pointed out that Africa’s foreign trade exhibits five major defects, which were mainly responsible for heavy reliance on external sources for its development needs. These defects, a result of the severe disarticulation and distortions of Africa’s colonial economy and the late decolonization of the region include:

- High export dependence
- High concentration of a few commodities
- Low and declining terms of trade
- High instability of exports’ earning due to the above factors and
- Chronic balance of payment crisis.

It was upon this porous economic foundation that many African countries got their independence, mostly in the 1960s. The implication of this negative starting position was the inability of many new African economies to cope with the neo—colonial shocks that were to come, including the internal pressures for better living conditions in the continent as promised under the anti-colonial legitimization ideologies (Eke, 1975).

As the pressure heightened, most African countries were forced by domestic politics to jump-start development projects and programmes by relying largely on external sources of funding for implementation. At the same time, to encourage economic growth, there had to be significant level of investment in the economy. This can only be made possible when and if there is an adequate investible surplus. In the absence of this surplus, alternative source of generating the needed capital must be devised, most often through external borrowing. Resultantly, African countries began to seek for and receive external funds and technical assistance to fill the savings and investment gaps. Relying on external sources (foreign aid) may not necessarily be bad for an economy. As a matter of fact, it is even seen as a good alternative to the creation of wealth during recession periods (Saliu, 1999). What is negative about foreign aid (especially borrowing) is the condition attached to the debt and grant and the cost of management of the debt. The African experience shows that it is the burden of conditions placed on foreign aids and the cost of servicing extensive borrowing that has led to the continents debt crisis. This is because, African external donors and creditors have insisted on deregulation of the economy, devaluation of the local currency, and recently, political liberalization (liberal democracy), which has actually undermined African economies. Worse still, poor economic management at the domestic front in the form of wasteful and unproductive expenditure,

together with mismanagement of the borrowed funds by inefficient aid corrupt public enterprises, have become a major feature in Africa and have hardly allowed African countries to benefit adequately from foreign aid. Instead they have combined to undermine Africa's development in spite of their huge reliance on external sources.

The question, therefore, is that, is dependence or reliance on foreign sources for development in Africa necessary? If so, given the experience of Africa, must African nations continue to rely on external sources for their development? If not, at what point should they have a break in their dependence on external sources for their development? In other words what are the limits of reliance on external sources for development in Africa?

The answers to these questions are relative. In the argument for foreign aid, we have presented how foreign aid, among other things allows a country to invest and consume beyond the limits of current (domestic) production and again finance capital formation. Thus, all things been equal, leads to rapid growth as it affects the macroeconomic stability of the economy. This can be understood in the context of production, consumption, savings and investment. A relationship is thus created between production and income, as production create income that is equal to the value of output. The government in taxes takes part of this income, some saved by the private sector, and the rest consumed. In the absence of external borrowing, private sector investment plus government expenditure is constrained by the level of private sector savings and taxation. With external borrowing economic growth could be accelerated by permitting investment plus government spending to exceed savings plus taxes and simultaneously allowing imports to exceed exports (Klein in Saliu, 1999). Thus, external reliance (foreign aids in form of borrowing and grants) should be limited at the point Africa has borrowed substantial amount and have had accelerated growth of national income. At this point Africa should reduce steadily, their dependence on external assistance for continued growth. Again, in as much as domestic savings and foreign exchange gap exists and persists, in most African countries, Africa has no real option than to keep on importing "capital requisite into the continent until a time is reached when the economy can generate enough capacity and capability to service such debts and thus repay the principal. At this point Africa should gradually reduce her dependence on foreign assistance in her quest for development. On the contrary, Africa should also be conscious of the fact that reliance on external sources

for development also imposes certain obligations on the continent to their external sources. For instance, if a country borrows, she must pay interest on the outstanding debts, and as debt increases, interest payments required to service the debts increases. While it is important and crucial that external borrowing leads to an increase in productive capacity, for domestic needs and more fundamentally, an expansion of exports to finance interest and amortization payments. Inability to achieve this will make debt service reaching an unacceptable or unmanageable proportion of exports and total production. This may lead to financial crisis (debt management crisis) and the effect on the economy will be monumental. This consideration must also set a limit for reliance on external sources for Africa's development.

Africa's reliance on foreign aid should also be limited by the character of the donor nations or institutions. Africa should stop relying on external sources if the strings (conditionalities) attached to it is such that will hinder the economic progress of Africa. Some of these stringent conditions include; high interest rate, accepting Western style restructuring of the economy such as Structural Adjustment Programme (SAP), opening up the economic borders of African countries to foreign unhindered participation and so on. Such conditionalities will not allow the continent to benefit from external assistance and so the continent should stop relying on external sources under such conditions.

Again, Africa should tactically withdraw from her reliance on external sources at the point it endangers her sovereignty and reduces her to a pawn in the chess game of the donor powers to her detriment. Also internal conditions such as mismanagement of borrowed funds or grants, corruption, laziness and lack of initiative exhibited by Africans and their government due to the availability of a flood gate of foreign capital by way of foreign assistance should also define the limits of external reliance for development in Africa.

## 6. Conclusion and Recommendation

It is worthwhile to state that unless Africa devises alternative source of finance to aid her economic progress, she would not be able to draw the lines of the limits of her external reliance for her development. This unfortunately is the situation for most Africa countries who have become victims of relying on external sources for their development and are unable to pullout from such heavy reliance. They

have put themselves in the “prison” of dependency. Thus to be able to draw the lines of these limits Africa must devise sustainable development strategies that are less anchored on foreign sources for implementation, embark on serious regional economic integration, diversify their economic base, ensure prudent management of resources and pursue a drastic fight against corruption. Without these, there can hardly be any limit to Africa’s reliance on external sources for her development. This in itself is antithetical to her development.

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